

Accounting Controls in a Construction Company



Operations of a construction company are spread over various remote locations and not restricted merely to couple of factories and branches as is normally seen in a manufacturing sector. Not only that, the locations are not stable and keep changing every few months. There are various challenges that emerge in the construction sector and one of them is Accounting. Because of multiple and remote locations, it presents altogether a new ball game for those involved. Read on to know more...

Since timely accounting has a very important role to play in a construction company, the management needs to implement proper systems. The management thus has to make either of the two choices:-

- a. Centralised Accounting
- b. Decentralised Accounting - This option can have various models which we shall discuss in detail.

Both these options have their merits and demerits and decision to opt for one over another is not automatic but would depend on a case to case basis. Let's review both the models in detail.

Centralised Accounting

Under this model, the accounting team of the company sits at one location, say Head Office and all the sites are expected to send their documents at regular intervals to the HO. All the payments are released from the HO only. The sites may have a junior cashier to handle the cash, who may serve multiple purposes at the site. Now, to ensure proper co-ordination, accountants at the HO need to be given proper responsibility



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distribution, so that someone is looking after each of the sites, depending on the size of the project. Further, this shall also ensure that a particular accountant at HO can be made responsible for poor document inflow from a particular site.

This model may be advisable, when the number of sites are limited and are not far off from the HO. Thus, the frequency with which the documents are to flow from the construction sites to the HO needs to be decided in advance with strict compliance. Since the HO is totally disconnected from the sites, it is required to lay down the base documentation required for booking of an expense in each of the cases.

Let's say for booking a Purchase Bill, the HO may specify some pre-requirements to the site, say the Purchase Bills should:-

- a. Be duly authenticated by the Project Manager
- b. Have a Goods Receipt Note from the stores department
- c. Have a Supplier Challan
- d. Comply with the Cenvat Rules requirement if Cenvat is to be availed.

This and more depending on the nature of expense. Such a process ensures that, before a liability is confirmed by booking the same in accounts, the basic controls have been ensured. Accounts department also has to be given strict guidelines, that the party payments are made only after booking the liability in books. Many a time, a situation may arise where the party payments are to be made and invoices lie with the accounts, but since all the documentation criteria have not been met, the same are not booked as liability. In such cases, proper balance needs to be maintained by the accounts department as far as release of payment is concerned. That is, the payment in such cases should only be released where the progress of the site seems to be getting affected, with strict warning to the site.

Let us now see the merits and demerits of Centralised Accounting:-

Merits of Centralised Accounting

1. Overhead Cost as well as administrative burden for recruitment of accountants at each location is minimal in this model as compared to Decentralised. Number of accountants required under this model, is far lesser as compared to the decentralised model.
2. Since the flow of documents to HO is at regular intervals, the filing and documentation is proper and even the audit can be carried out at HO at timely intervals.

3. Monitoring and Budgeting controls can be properly exercised in this model.
4. Branch Reconciliation issues do not arise in this model.
5. Back dated entries can be properly tracked in this model as the complete data entry work is entrusted with the HO accounting personnel.
6. All expenses which are received with considerable time lag may be scrutinised properly.

Demerits of Centralised Accounting

1. May lead to poor documentation, as the site personnel might not be technically sound to ensure compliances instructed from HO.
2. Site is not in the possession of the documents, as it has to submit the same to HO on a regular basis. Hence, tracing any issues for earlier periods would consume avoidable time of HO personnel. Further, many a time there may be a loss of documents in transit.
3. Even if the site wants to retain the documents, it needs to get the same copied, leading to duplication of documents at the site.
4. There may be certain cases where the site wishes to withhold payment for deficient service/supply. In all such cases, it may have to retain the original documents, for required modification. This shall lead to delay in preparation of monthly accounts at HO.
5. HO is not in a position to physically cross verify the documents, as it would not challenge them, as long as the documents carry proper authorisations as per the agreed procedure.
6. Since the physical contact with the site personnel is poor, they normally tend to ignore HO instructions under the excuse of excess work loads or poor site infrastructure.
7. Manual records might increase under this model, to give more comfort to HO. A further lot of co-

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- ordination and follow up are required from HO to clear the pending issues.
8. Physical control over cash is poor, as cash keeps changing hands. So, if the site has the tendency to pay a lot of cash to sub-contractors, then this model may not be advisable.
 9. Accountants at HO more or less become data entry operators as they may not understand the business model.

Decentralised Accounting

Under this model, the accounting team of the company sits at multiple locations i.e. at HO as well as all the remote sites. All vouchers, documents are prepared and filed at the Site. Accounting is also being done at the site itself. Regular backups of the accounts are being sent to HO for review and queries.

Many a time, the site also uses a local bank account for making some payments directly, if any of the site incharges have been given the authority to operate the bank account. However, such a power should be delegated only in selective cases and with proper monetary limits. The main advantage of opening a separate bank account for a site helps in financial management and fund flow analysis. This is because, HO can always intimate the site to get the funds first before any liability is released towards the site. This management is so simple that even a technical project manager at the site can understand the same.

These days, with advancement of technology, this model is also being operated with a slight variation. That is, the accounting software is installed in a central server with the accounts team dispersed at sites. The only issue which remains is that, if the construction sites are at distant locations where the Internet connectivity is poor, the solution may not work properly and the site would not be in a position to update its accounts on a regular basis. Thus this may be used with proper verification about the net connectivity.


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Merits of Decentralised Accounting

1. The site accountant is better equipped to understand the site concerns and is able to interact with the employees and vendors.
2. Because of direct interaction with the site employees, the accountant is properly aware of the various internal control weaknesses at the site and he can thus up the ante from his end to put pressure on the site.
3. There are various additional factors to be considered at the time of preparation of Site MIS. If the accountant is based at site, he can consider all such issues to arrive correctly at the unbilled work and unbooked expenses.
4. Client and Local Supplier Reconciliation is eased to a great extent, if the accounts department is based at the site itself.
5. Site based statutory compliances can be better because of a dedicated accountant. Thus, VAT/Entry Tax/Forms Management (C,F)/Labour Laws can be regularly complied to.
6. Because of the presence of a watchdog in the form of a site accountant, overall expenditure in the form of overheads can be curtailed, provided the accountant is strong enough to resist the spendthrift staff and is aware of the variability of expenses as compared to the volume of work executed.
7. It is normally seen that the cash turnover at the construction sites is remarkably higher as compared to other businesses. Hence, the site accountant is able to exercise proper control over physical Cash.
8. Document related deficiencies can be resolved in a proper and timely manner, due to direct physical contact between accounts and other concerned persons say client/vendors.
9. Invoice Controls like serial number/taxation can be properly maintained, as the accountant would oversee such issues, unlike in a centralised model where even the technical engineers get involved in invoicing.
10. Site accountant because of regular interaction with the technical staff is in a better position to educate them on various issues like finance, relevance of documents, impact of statutory non-compliances.
11. Timely billing of client and sub-contractor billing can be ensured.

Demerits of Decentralised Accounting

1. Cost of the accounting function would increase, if proper site accountants are to be kept with reasonable qualification.

2. Many a time, due to distant locations, when the site accountant is not available, then the organisation has to follow a mixed pattern i.e. decentralised accounting at some sites and centralised at others. Thus a state of chaos may emerge, when the decision of going with centralised accounting is taken for a site after much delay.
3. If the site accountant is inexperienced or if morally not sound, the vendors may indulge in unfair practices.
4. Many a time, the unity of command of the accounts function is in jeopardy. As the site accountant may not be sure as to whom to report to, whether to HO or the Site Project manager.
5. If some of the sites are very remotely located, then availability of quality manpower for the site would lead to control issues.
6. Under this model, many a time, due to inability of HO to appoint the accounts personnel, Site Project Manager may appoint a local person as accountant or he may bring someone from his reference. Both the cases bring a fundamental weakness in the internal controls, by violating the maker checker concept.
7. At construction sites, it is seen that since the staff is working on all the seven days of week at the site, they normally go on leave for 15 to 20 days. So, in case of absence of the accountant, the back up arrangements need to be strong. Otherwise, there are chances of theft/fraud in that period.
8. If the site accountant is given multiple functions which results in shifting his focus from the core accounting function, then this model would not function properly.

In view of both the models, it may now sound very confusing, as to which model should be adopted, looking into various scenarios that emerge under both the models.

We believe that, on the basis of our exposure to the sector, that first preference should always be given to a Centralised Accounting model. One would argue that there are almost equal merits/demerits stated for each of these models but the practical merits in the centralised model, along with the demerits as stated for the other model, outweigh the decentralised model. ■